South Carolina State Ports Authority

Financial Statements
June 30, 2008 and 2007

South Carolina State Ports Authority
Index
June 30, 2008 and 2007

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Report of Independent Auditors

To the Board of Directors
South Carolina State Ports Authority

In our opinion, the accompanying balance sheets and related statements of revenues, expenses and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of the South Carolina State Ports Authority (the "Ports Authority"), a component unit of the State of South Carolina, at June 30, 2008 and 2007, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Ports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Ports Authority are intended to present the financial position, changes in financial position and cash flows of the State of South Carolina that is attributable to transactions of the Ports Authority. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2008 and 2007, the changes in financial position or its cash flows for the years then ended in conformity principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, on July 1, 2007, the Ports Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 14, 2008

Management's Discussion and Analysis

Annual Financial Report

The annual financial report of the South Carolina State Ports Authority ("Ports Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2008 and 2007. The financial statements include the independent auditor's opinion, balance sheets, statements of revenues, expenses and changes in net assets, statements of cash flows and the accompanying explanatory notes. Management's discussion and analysis should be read in conjunction with the financial statements and notes.

Management's Discussion and Analysis

The South Carolina State Ports Authority was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority has no stockholders or equity holders and is directed by a governing board, whose members are appointed by the Governor of South Carolina for seven-year terms. The Ports Authority owns and is responsible for the operation of seven ocean terminals at the ports of Charleston and Georgetown. These facilities primarily handle import and export containerized, breakbulk and bulk cargoes.

Financial Position

The Ports Authority's performance measures during fiscal years ended June 30 are as follows:

(in thousands)	**2008**	**2007**	**2006**
Total operating revenues	$ 165,092	$ 153,442	$ 154,016
Total TEUs (equivalent number of 20' container units)	1,695	1,884	1,979
Breakbulk Pier Tonnage	947	1,235	2,008

A total of 1,840, 2,014 and 2,050 vessels (excluding barges) docked during the years ended June 30, 2008, 2007 and 2006, respectively. The Ports Authority provided services to the ten largest container ship lines based on the second quarter 2007 issue of the Journal of Commerce/PIERS, U.S. Global Container Report.

Required Financial Statements

The financial statements of the Ports Authority report information about the Ports Authority using accounting principles generally accepted in the United States of America. These statements offer short and long-term financial information about its activities.

The balance sheets include all of the Ports Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Ports Authority's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Ports Authority and assessing the liquidity and financial flexibility of the Ports Authority.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Ports Authority's operations and can be used to determine whether the Ports Authority has successfully recovered all its costs through its customer contracts, tariff and other charges, as well as its profitability, and creditworthiness.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Ports Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provide answers to such questions as where did cash come from, what was it used for, and what was the change in cash balance during the reporting period.

Analysis of Overall Financial Position and Results of Operations

One of the most important questions asked about the Ports Authority's financial statements is "Is the Ports Authority as a whole, better off or worse off as a result of the year's activities?" The balance sheets, and the statements of revenues, expenses and changes in net assets report information about the Ports Authority's activities in a way that will help answer this question. You can think of the Ports Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Ports Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, world events, regulation and new or changed government legislation.

Statements of Financial Position (Balance Sheets)

The balance sheet serves as a useful indicator of the Ports Authority's financial position. It distinguishes assets and liabilities as to their expected use for current operations or internally designated use for capital projects. The Ports Authority's assets exceeded liabilities by $623.8 million and $546.8 million at June 30, 2008 and 2007, respectively, a $77 million increase from June 30, 2007. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below:

(in thousands of dollars)	**2008**	**2007**	**2006**
Assets			
Current assets	$ 53,197	$ 106,487	$ 118,299
Internally designated assets	173,631	78,814	59,212
Held by trustee for debt service	6,377	6,206	6,209
Held by third party for capital projects	1,790	-	-
Other assets, net of depreciation	565,045	531,057	479,410
Total assets	$ 800,040	$ 722,564	$ 663,130
Liabilities			
Current liabilities	$ 47,255	$ 42,845	$ 25,096
Long-term obligations	128,947	132,867	150,279
Total liabilities	176,202	175,712	175,375
Net assets			
Invested in capital assets, net of debt	402,803	366,209	315,232
Restricted for debt service	6,384	6,227	6,229
Restricted for capital projects	1,790	-	-
Unrestricted	212,861	174,416	166,294
Total net assets	623,838	546,852	487,755
Total liabilities and net assets	$ 800,040	$ 722,564	$ 663,130

The largest portion of the Ports Authority's net assets each year (64.6%, 67.0% and 64.7% at June 30, 2008, 2007, and 2006, respectively) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The Ports Authority uses these capital assets to provide services to major steamship lines and their agents for movement of maritime cargo; consequently, these assets are not available for future spending. Although the Ports Authority's investment in capital assets reported is shown net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves generally are not sold to liquidate liabilities.

An additional portion of the Ports Authority's net assets (1.3%, 1.1% and 1.3% at June 30, 2008, 2007 and 2006, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net assets (34.1%, 31.9% and 34.1% at June 30, 2008, 2007 and 2006) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

Statements of Revenues, Expenses and Changes in Net Assets

A condensed comparative summary of the Ports Authority's revenues, expenses and changes in net assets for the years ended June 30 is shown below:

(in thousands of dollars)	**2008**	**2007**	**2006**
Operating revenues	$ 165,092	$ 153,442	$ 154,016
Operating expenses	110,399	103,566	100,645
Operating earnings	54,693	49,876	53,371
Nonoperating income (expense), net	(896)	9,499	5,747
Contributions to State of South Carolina	(1,000)	(1,000)	(1,000)
Capital contributions of land	23,550	274	1,041
Capital grants from the federal government	639	448	964
Increase in net assets	$ 76,986	$ 59,097	$ 60,123

Operating revenues increased 7.6% from $153.4 million in 2007 to $165.1 million during 2008 due to an increase in breakbulk cargo volume, wharfage, dockage, terminal security surcharges and cruise ship passenger embark and disembark fees, throughput fees and contract differential charges to customers for inefficient use of their licensed areas and Authority provided yard equipment. However, this increase was partially offset by decreased property and equipment rental income and demurrage charges for empty container storage. Operating revenues decreased by approximately 0.4% from $154.0 million in 2006 to $153.4 million during 2007 due to a decrease in breakbulk cargo volume, demurrage revenues (loaded container storage) and a small decline in container traffic volume. However, this decrease was partially offset by increases in container handling, equipment rental and terminal security surcharges.

The following table breaks down operating revenues by port for each fiscal year ended June 30:

(in thousands of dollars)	**2008**	**2007**	**2006**
Operating revenues			
Charleston	$ 159,156	$ 147,559	$ 147,020
Georgetown	1,622	2,205	3,258
Port Royal	123	471	787
Other	4,191	3,207	2,951
Total operating revenues	$ 165,092	$ 153,442	$ 154,016

The following table breaks down operating expenses for each fiscal year ended June 30:

(in thousands of dollars)	2008	2007	2006
Operating expenses			
Direct operating expenses	$ 62,252	$ 63,307	$ 60,130
Administrative expense	19,609	15,026	16,050
Depreciation expense	28,538	25,233	24,465
Total operating expenses	$ 110,399	$ 103,566	$ 100,645

Direct operating expenses for fiscal year 2008 decreased by 1.7% from $63.3 million in 2007 to $62.3 million as a result of the decreased expenses associated with group insurance premiums, maintenance costs of cranes and container handler equipment and berth dredging costs. These cost savings were somewhat offset by increased employee wages, implementation of the transportation workers identification card program, bulk cargo heavy lift services, software maintenance costs, gas and oil expense and the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 45 that provides for a 30 year amortization of past service costs associated with post retirement benefits and programs. Administrative expenses for fiscal year 2008 increased 30.5% from $15.0 million in 2007 to $19.6 million in 2008 as a result of increased state retirement contributions and the implementation of GASB Statement No. 45 discussed above. Depreciation expense increased $3.3 million from $25.2 million in 2007 to $28.5 million in 2008. The Ports Authority placed several new assets into service during 2008, which increased depreciation expense in fiscal year 2008.

Direct operating expenses for fiscal year 2007 increased by 5.3% from $60.1 million in 2006 to $63.3 million as a result of the increased expenses associated with health insurance costs, property insurance and damage claims, berth dredging costs and repairs and maintenance of container handler equipment. Administrative expenses for fiscal year 2007 decreased 6.4% from $16.0 million in 2006 to $15.0 million in 2007 as a result of decreased expenses for legal fees and other professional services. Depreciation expense increased $768,000 from $24.5 million in 2006 to $25.2 million in 2007. The Authority placed several new assets into service during 2007, which increased depreciation expense in fiscal year 2007.

For 2008, operating earnings increased by 9.7% or $4.8 million for the reasons stated above. In 2007, operating earnings decreased by 6.5% or $3.5 million from 2006 due to the reasons discussed above.

Nonoperating income (expense), decreased from a net income of $9.5 million in 2007 to net expense of $896,000 in 2008. This decrease is principally due to a $6.0 million dollar decline in the fair market value of two interest rate exchange agreements entered into during prior years and, as discussed in the next paragraph, no sale of land parcels similar to those sold in 2007.

Nonoperating income (expense), increased from $5.7 million in 2006 to $9.0 million in 2007. This increase during 2007 is due principally to a gain of $7.0 million on the sale of two parcels of land.

The Ports Authority made contributions to the State of South Carolina during the years ended June 30, 2008, 2007, and 2006, as more fully described in Note 11 – Other Matters. These payments have been treated as nonoperating contributions to the State of South Carolina and therefore have reduced the Ports Authority's net assets. This contribution is not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability.

During 2008, the Ports Authority received 318 acres of land from the Charleston Naval Complex Redevelopment Authority ("RDA"). This land was part of the land situated at the former Charleston Navy Base and it will be used for the construction of a new container terminal. It was recorded on the Ports Authority's books at fair value of $23.6 million as of June 30, 2008. The State of South Carolina funded the purchase of two parcels of land during 2007 totaling $274,000 and three parcels of land during 2006 totaling $629,000. This land is used in connection with the BMW facility in Greer, South Carolina. The parcels, now owned by the Ports Authority, will be leased to BMW. During 2006 the Ports Authority also received a parcel of land from the Charleston Naval Complex Redevelopment Authority for sale to an outside party for approximately $412,000.

During the years ended June 30, 2008, 2007 and 2006, the Authority received approximately $639,000 $448,000 and $964,000, respectively, in federal grant money to be used for security related capital expenditures.

In summary, net assets during fiscal years 2008, 2007 and 2006 increased $76.9 million, $59.1 million and $60.1 million, respectively.

Statements of Cash Flows

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents include highly liquid investments generally with a remaining maturity at time of purchase of three months or less. A condensed comparative summary of the statements of cash flows for the years ended June 30 is shown below:

(in thousands of dollars)	2008	2007	2006
Cash flow from operating activities	$ 78,982	$ 78,318	$ 69,968
Cash flow from investing activities	7,693	7,087	5,450
Cash flow used in capital and related financing activities	(52,610)	(73,995)	(47,862)
Net increase in cash and cash equivalents	34,065	11,410	27,556
Cash and cash equivalents			
Beginning of year	157,802	146,392	118,836
End of year	$ 191,867	$ 157,802	$ 146,392

The Ports Authority's available cash and cash equivalents increased from $157.8 million at the end of 2007 to $191.8 million at the end of 2008 due to the positive flow of funds provided by operating and investing activities offset by the use of funds for capital acquisitions and related financing activities.

Capital Acquisitions and Construction Activities

During the fiscal year ended June 30, 2008, the Ports Authority purchased and constructed approximately $43.4 million in new capital assets. A major capital asset purchased and placed in service is the Authority's new financial ERP system. In addition, new capital assets constructed include the expansion of the Wando terminal container yard and site development work at the new container terminal located at the old Charleston Navy Base. Approximately $12.9 million of fixed assets (at cost) were written off or disposed of during 2007.

During the fiscal year ended June 30, 2007, the Ports Authority purchased and constructed approximately $72.6 million in new capital assets. The major capital assets purchased include new rubber-tired gantry cranes and engineering studies related to the development of a new terminal. The major capital assets constructed include new dockside cranes and various wharf enhancements. Approximately $3.7 million of fixed assets (at cost) were written off or disposed of during 2007. The Ports Authority recorded a gain of approximately $7.0 million during the year ended June 30, 2007 related to the sale of property.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded primarily with the issuance of tax-exempt revenue bonds and port revenues. The Ports Authority had construction commitments of approximately $32.2 million at June 30, 2008. Additional information on the Ports Authority's capital assets and commitments can be found in Note 3 – Property and Equipment and Note 6 – Commitments in the notes to the financial statements.

Liquidity Outlook

We believe that, based on current and anticipated financial performance, cash flows from operations will be adequate to meet anticipated requirements for capital projects as well as scheduled interest and principal payments for the coming year.

Our strategy for growth includes terminal expansion and new port facilities in the near future. We believe that cash on hand, investments and cash generated from operations will enable us to support our strategy. We have plans to seek additional financing through the issuance of revenue bonds during 2009 or 2010. We believe we have excess borrowing capacity beyond our current obligations, however there can be no assurance that such financing would be available or, if so, at terms that are acceptable to us.

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market prices and rates. We are exposed to market risk in the form of interest rate risk related to borrowings under the Series 1998B Revenue bonds. In response to this interest rate risk, we have redeemed and paid in full the Series 1998B Revenue bonds in October 2008 as discussed in Note 13. Additionally, we are exposed to various market risks associated with interest rate exchange agreements which are more fully discussed in Note 6.

In addition, we are exposed to risks associated with our investment balances. Our cash held by third party banks are considered public funds and therefore the amounts are fully collateralized. However, the majority of our investment balances are held in the cash management pool with the State of South Carolina Treasurer's office. This pool is invested in bank certificates of deposit, commercial paper and other non-guaranteed investments which in the past have experienced a very low default rate. The Treasurer's office has calculated the fair market value of the securities in the pool and has reported to us the unrealized market gain or loss. If the calculation results in a loss, we reflect that loss in the financial statements, but do not recognize any unrealized gains. Although the market adjustment might involve a loss, the Treasurer's office has not adjusted our cost basis in the cash management pool. We have always been able to withdraw our principal plus average accrued interest, dividends and realized gains and losses from the pool. Additional risks associated with credit, custodial credit and interest rate risk related to our cash and investment balances are more fully discussed in Note 1.

Long-Term Debt

Series 1998
During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately $1,105,000, consist of serial bonds totaling $70,865,000 maturing July 1, 2018 and term bonds of $54,135,000 maturing on July 1, 2026. The bond premium is amortized using the effective interest method over 28 years, the life of the bonds. During the years ended June 30, 2008, 2007 and 2006, the Ports Authority made principal payments on the bonds of $3,330,000, $3,155,000 and $3,025,000, respectively.

The balance outstanding under the Series 1998 Bonds is as follows: June 30, 2008 – $105,175,000, June 30, 2007 – $108,505,000 and June 30, 2006 – $111,660,000.

Series 1998B
During fiscal year 1999, the Ports Authority issued Series 1998B bonds to refund the Ports Authority's outstanding $24,800,000 1994 Junior Lien Revenue Bonds. The bonds, issued at cost, consist of term bonds of $25,000,000 maturing on July 1, 2028. Interest is payable each January 1 and July 1 at variable rates, with a maximum rate of 18%. The 1998B bonds are generally redeemable prior to maturity on interest payment dates with a 30 or 60-day notice from the Ports Authority, depending on which interest rate applies at the time. Some interest rates require a no-call period during which the bonds are not redeemable. The Authority elected to retire these bonds on October 3, 2008 by cash payment to the trustee. As of October 3, 2008 these bonds are no longer outstanding and are no longer a financial obligation to the Ports Authority.

Other Liabilities
As of June 30, 2008, the Ports Authority recorded a current liability of approximately $14,955,000 million equal to the final project costs on the Charleston Harbor deepening project. As a result of the acquisition of a business in January 2004, the Authority assumed a note payable of approximately $3.5 million. See further discussion in Note 4- Intangible Assets and Goodwill. The Ports Authority did not use its credit agreement with a local bank to support its operations at any time during fiscal year 2008 or 2007.

Bond Insurance and Credit Rating
The Ports Authority has purchased insurance for each bond issue to underwrite the payment of principal and interest. As a result, the Series 1998 and 1998B revenue bond issues received AAA ratings from both Moody's and Standard and Poor's covering both of its outstanding bond issues discussed above. Without the insurance, the underlying ratings would have been A1 by Moody's and A+ by Standard and Poor's for both outstanding bond issues.

Contacting the Ports Authority's Financial Management
If you have questions about this report or need additional financial information, contact the Ports Authority's Chief Financial Officer, P. O. Box 22287, Charleston, SC 29413-2287 USA.

South Carolina State Ports Authority
Balance Sheets
June 30, 2008 and 2007

(in thousands of dollars)	2008	2007
Assets		
Current assets		
Cash	$ 3,913	$ 3,433
Investments	14,323	75,555
Accounts receivable		
Trade, net of allowance for doubtful accounts of $2,208 in 2008 and $1,990 in 2007	23,158	16,116
Other	2,592	2,495
Inventories	5,415	4,716
Prepaid and other current assets	3,796	4,172
Total current assets	53,197	106,487
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	173,631	78,814
Investments held by trustee for debt service	6,377	6,206
Investment held by third party for capital projects	1,790	-
Property and equipment, net	536,489	501,002
Deposit for purchase of land	9,317	9,317
Other long term assets	465	2,352
Unamortized bond issue costs	1,379	1,454
Deferred harbor deepening costs	14,763	14,261
Intangible assets	2,632	2,671
Total assets	$ 800,040	$ 722,564
Liabilities and Net Assets		
Current liabilities		
Current maturities on long-term debt	$ 3,875	$ 3,818
Accounts payable	4,092	7,212
Accounts payable, construction	9,598	11,138
Retainage payable on construction contracts	1,962	170
Accrued interest payable	6,746	2,980
Accrued employee compensation and payroll, related withholdings and liabilities	4,667	4,539
Postretirement obligation	1,360	-
Harbor deepening obligation, current	14,955	12,988
Total current liabilities	47,255	42,845
Long-term debt	128,947	132,867
Total liabilities	176,202	175,712
Invested in capital assets, net of related debt	402,803	366,209
Restricted		
For debt service	6,384	6,227
For capital projects	1,790	-
Unrestricted	212,861	174,416
Total net assets	623,838	546,852
Total liabilities and net assets	$ 800,040	$ 722,564

The accompanying notes are an integral part of these financial statements.

South Carolina State Ports Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

(in thousands of dollars)	**2008**	**2007**
Operating revenues	$ 165,092	$ 153,442
Operating expenses		
Direct operating expense	62,252	63,307
Administrative expense	19,609	15,026
Depreciation expense	28,538	25,233
Total operating expenses	110,399	103,566
Operating earnings	54,693	49,876
Nonoperating revenues (expenses)		
Interest income	9,445	7,372
Other income, net	413	275
Gain on sale of property and equipment, net	32	7,030
Interest expense	(10,786)	(5,178)
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(1,000)
	(1,896)	8,499
Excess revenues over expenses before capital contributions	52,797	58,375
Capital contribution from State of South Carolina, BMW land	-	274
Capital contribution from the Charleston Naval Complex Redevelopment Authority, land	23,550	-
Capital grants from federal government	639	448
Increase in net assets	76,986	59,097
Total net assets		
Beginning of year	546,852	487,755
End of year	$ 623,838	$ 546,852

The accompanying notes are an integral part of these financial statements.

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

(in thousands of dollars)	2008	2007
Cash flows from operating activities		
Cash received from customers	$ 160,565	$ 158,589
Cash paid to suppliers	(37,644)	(36,192)
Cash paid to employees	(43,939)	(44,079)
Net cash provided by operating activities	78,982	78,318
Cash flows from investing activities		
Proceeds from sale of investments	10,165	8,956
Purchases of investments	(12,126)	(8,953)
Interest received on investments	9,654	7,084
Net cash provided by investing activities	7,693	7,087
Cash flows from capital and related financing activities		
Acquisition and construction of property and equipment	(43,381)	(72,640)
Proceeds from sale of property and equipment	190	7,732
Principal paid on revenue bonds	(3,330)	(3,155)
Principal paid on other debt	(488)	(485)
Interest paid on revenue bonds, net of amounts capitalized	(4,771)	(5,104)
Interest paid on other debt	(128)	(166)
Capital grants received	298	1,007
Transfer to State of South Carolina for new Cooper River Bridge	(1,000)	(1,000)
Other	-	(184)
Net cash used in capital and related financing activities	(52,610)	(73,995)
Net increase in cash and cash equivalents	34,065	11,410
Cash and cash equivalents		
Beginning of year	157,802	146,392
End of year	$ 191,867	$ 157,802
Reconciliation of cash and cash equivalents to the statements of net assets		
Cash	$ 3,913	$ 3,433
Investments	14,323	75,555
Investments internally designated for capital acquisitions	173,631	78,814
Total cash and cash equivalents	$ 191,867	$ 157,802

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

(in thousands of dollars)	2008	2007
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	$ 54,693	$ 49,876
Adjustments to reconcile operating earnings to net cash provided by operating activities, net of acquisition		
Depreciation	28,538	25,233
Provision for doubtful accounts	420	150
Other income (expense), net	413	275
Amortization	69	143
Changes in operating assets and liabilities		
Accounts receivable	(7,462)	1,139
Inventories	(699)	(290)
Prepaid and other current assets	177	2,391
Other long-term assets	(502)	860
Accounts payable and other liabilities	(120)	(618)
Payroll related liabilities	128	(281)
Postretirement liability	1,360	-
Other obligations	1,967	(560)
Net cash provided by operating activities	$ 78,982	$ 78,318

Noncash investing, capital and related financing activities
The following are noncash investing capital and related financing activities at June 30:

(in thousands of dollars)	2008	2007
Property and equipment included in accounts payable	$ 11,560	$ 11,308
Donated land	23,550	274
Federal grants receivable	639	298
Unrealized loss on interest rate swap	(6,036)	(96)

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation
The South Carolina State Ports Authority ("Ports Authority") was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority owns and is responsible for the operation of eight ocean terminals at the ports of Charleston, Georgetown and Port Royal. These facilities handle import and export containerized, breakbulk and bulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 20, the Ports Authority has elected to apply all Financial Accounting Standards Board ("FASB") Pronouncements, except those that conflict with or contradict GASB Pronouncements. The Ports Authority has no stockholders or equity holders and is directed by a governing board, whose members are appointed by the Governor of South Carolina for seven-year terms. The Ports Authority's financial statements are included in the State of South Carolina general purpose financial statements as a discretely presented component unit.

All activities of the Ports Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Ports Authority is determined by its measurement focus. The transactions of the Ports Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the balance sheet. Net assets are segregated into: invested in capital assets, net of related debt; restricted; and unrestricted components. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and debt issuance costs associated with long-term debt and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

- Restricted – This component of net assets consists of external constraints placed on net asset use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

New Accounting Pronouncements
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions,* establishes standards for the measurement, recognition and display of OPEB expenditures and related assets and liabilities and note disclosures for state and local government employers. The Ports Authority adopted this statement during fiscal year 2008.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred. The Ports Authority adopted this statement during 2008. The adoption of this statement had no impact in 2008.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, will provide users of financial statements with more complete and comparable information regarding intangible assets. The Statement also establishes specific guidance for the amortization of intangible assets, including determining the useful life of intangibles that are limited by legal or contractual provisions. GASB 51 is effective for financial statement periods beginning after June 15, 2009, with earlier application encouraged. The Ports Authority is currently assessing the impact of this new standard on the financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, will provide guidance on recognition, measurement and disclosure of derivative instruments entered into by governmental entities. This Statement is effective for reporting periods beginning after June 15, 2009. The Ports Authority is currently assessing the impact of this new standard on the financial statements.

Cash, Investments and Pooled Investments
The Ports Authority maintains cash, investments and pooled investments for operations, debt service and capital improvements. Funds are deposited in banks, money market accounts, and pooled investment funds maintained with the State Treasurer. Cash, investments and pooled investments used for operations are included on the balance sheet as "cash" and "investments". Investments maintained in accordance with revenue bond debt service requirements are included on the balance sheet as "held by trustee for debt service." Cash, investments and pooled investments earmarked by the board of trustees for capital expansion are included on the balance sheet as "internally designated for capital acquisitions." Amounts invested with the State Treasurer are part of an internal investment pool. The pool operates as a demand deposit account and amounts invested in the cash management pool are classified as cash and cash equivalents for purposes of the statement of cash flows. Other amounts including cash and funds internally designated for capital acquisitions are highly-liquid investments with a maturity of three-months or less, and are considered cash and cash equivalents for purposes of the statements of cash flows. Investments with maturities less than one year at time of purchase are recorded at amortized cost, which approximates fair value.

Credit Risk, Custodial Credit Risk, and Interest Rate Risk
The Ports Authority has investments held by a trustee to meet its debt service requirements, investments with third party banks, and investments with the State Treasurer as part of an internal investment pool as noted above.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Ports Authority. The investments held by a trustee include U.S government agency securities, which receive credit ratings from organizations such as Moody's Investors Service and Standard & Poor's. These rating agencies assign ratings to the securities by assessing the likelihood of issuer default; however, government obligations typically are not considered as having significant credit risk. The funds held by trustee received credit ratings from Moody's Investors Service of Aaa and Standard & Poor's of AAAm as of June 30, 2008 and 2007. The investments held with third party banks include money market funds and interest bearing accounts with credit ratings from Moody's of P-1 and Standard & Poor's of A-1+ as of June 30, 2008 and 2007. The money invested with the State Treasurer in the cash management pool is not rated by an outside agency; however, it is the policy of the State to invest in only the highest investment grade securities including those rated at least A by the two leading national rating services.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Ports Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments with third party banks and investments held by a trustee are not registered in the name of the Ports Authority. Investments held with third party banks are invested primarily in money market funds and interest bearing accounts, which totaled approximately $12,516,000 and $5,246,000 as of June 30, 2008 and 2007, respectively. Investments held by a trustee are invested in government agency securities, which totaled $6,377,000 and $6,206,000 as of June 30, 2008 and 2007, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2008 and 2007 with securities maintained by an outside party. All other investments are held in a pool established by the State Treasurer and are not collateralized.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Port Authority's investments in a single issuer. The Ports Authority does not have any individual investments that represent 5% or more of the Authority's investments at June 30, 2008 and 2007. The investments held by the State Treasurer are invested in various short term investments of which no single investment is greater than 5%.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Ports Authority minimizes its interest rate risk by investing in primarily short-term securities. Interest rate risk associated with the investments at the State Treasurer, are managed by asset allocation policies and by additional constraints controlling risk exposure.

Investments and their relative maturities are as follows at June 30:

(in thousands of dollars)

		Value	
Investment Type	**Maturity**	**2008**	**2007**
Money market funds	Less than one year	$ 12,516	$ 5,246
U.S. government agency securities	Less than one year	6,377	6,206

Investments in the state investment pool include obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. The maturity dates of these investments range from less than one year to thirty years.

Beginning in early 2008 and continuing through the date of these financial statements, the mortgage-backed and asset-backed securities markets (collectively referred to as "asset-backed securities") have been experiencing significant disruptions including reduced liquidity, reduced demand for asset-backed securities (particularly those securities backed by sub-prime collateral), financial stress and rating agency downgrades impacting the financial guarantee from insurance providers and a general tightening of availability of credit. These events have exacerbated the potential variability in the values and timing at which asset-backed securities could be liquidated. However, management has determined that the Ports Authority does not hold any asset-backed securities nor do they have any alternative investments as of June 30, 2008.

Inventories
Inventories consist principally of maintenance parts and supplies valued at the lower of average cost or market.

Property and Equipment
Property and equipment constructed or purchased is stated at cost. Contributed property and equipment is recorded at estimated fair value on the date received. Interest is capitalized on major long-term construction projects and is depreciated over the useful life of the related asset.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	3 to 50 years
Buildings and structures	5 to 50 years
Railroad tracks	20 to 25 years
Terminal equipment	3 to 25 years
Furniture and fixtures	2 to 20 years

Intangible Assets and Goodwill
The excess of cost over net assets acquired is recorded as goodwill. Intangible assets represent identifiable intangible assets including customer contracts and customer relationships. Amortization of intangible assets with definite useful lives is computed using an accelerated method based on the estimated useful lives of the related assets. The Authority reviews the carrying value of intangibles for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

The Authority tests goodwill for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Derivative Instruments and Hedging Activities
In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities.* SFAS No. 133 was amended in June 2000 by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment to FASB Statement No. 133.* SFAS No. 133, as amended, requires all derivatives to be carried on the balance sheet at fair value.

The Ports Authority has entered into interest rate swap agreements with a bank to fix the rate of interest on long term debt. Interest rate swaps are considered derivatives and are carried on the balance sheet at fair value. Unrealized gains and losses associated with the market value on the interest rate swap are recognized in the statement of revenues, expenses and changes in Net Assets as a component of interest income or interest expense. The Ports Authority does not enter into financial instruments for trading or speculative purposes and does not achieve hedge accounting under SFAS No. 133.

Operating Revenues and Expenses
The statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing commerce through the ports. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to support commerce, other than financing costs.

Contributions
From time to time, the Ports Authority receives contributions from the State of South Carolina or the Federal government. Revenues from contributions are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Resources
When the Ports Authority has both restricted and unrestricted resources available to finance a particular program, it is the Ports Authority's policy to use restricted resources before unrestricted resources.

Deferred Financing Costs
Deferred bond issuance expenses are recorded at cost and amortized over the life of the bonds using the effective interest method.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Risk Management
The Ports Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees and natural disasters. The Ports Authority has obtained commercial insurance to cover the risk of these losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

Concentration of Credit Risk
The Ports Authority provides services and facilities usage for companies located throughout the world. During the year ended June 30, 2008 and 2007, one customer accounted for approximately 21% and 18% of the Ports Authority's revenues and 25.9% and 7.2% of gross accounts receivable, respectively. The Ports Authority generally provides credit to its customers. The Ports Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Ports Authority maintains reserves for potential credit losses.

Unemployment Compensation
The Ports Authority is liable under the South Carolina Employment Security Law for unemployment compensation to its employees. The Ports Authority has elected to reimburse the Employment Security Commission for benefits paid by the Commission in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

2. Cash, Investments and Pooled Investments

The Ports Authority's total cash and investments at June 30, 2008 and 2007 are approximately $200,034,000 and $164,008,000, respectively. Periodically, cash on deposit in federally insured institutions exceeds the limit on insured deposits and may not be specifically collateralized. The Ports Authority has not experienced any such losses in its cash or investment accounts. The Ports Authority believes it is not exposed to any significant credit risk regarding cash and investments at June 30, 2008.

At June 30, 2008 and 2007, the Ports Authority's funds held by trustees totaled $6,377,000 and $6,206,000, respectively. The State Treasurer held approximately $177,228,000 and $149,123,000 of the Ports Authority's funds at June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, approximately $12,516,000 and $5,246,000 was invested with third party investment banking institutions.

The bond trustees invest in government agency securities and repurchase agreements collateralized by U.S. government securities. These investments are carried at cost plus accrued interest, which approximates market value.

The Ports Authority purchases participation units in the State Treasurer's fund. Funds deposited with the State Treasurer as part of an internal investment pool and are invested in U.S. government obligations, federal agency securities, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. The pool operates like a demand deposit account and includes primarily short term investments. The investments are carried at cost plus accrued interest, dividends and realized gains and losses, which approximates market value.

At June 30, the Ports Authority had bank balances as follows:

(in thousands of dollars)	2008	2007
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	$ 4,069	$ 4,238
Carrying value of cash	3,913	3,433

Investments at June 30 consist of the following:

(in thousands of dollars)	2008	2007
Investment in State cash management pool	$ 177,228	$ 149,123
Funds deposited with third party banks	12,516	5,246
U.S. government agency securities, held by trustee	6,377	6,206
	196,121	160,575
Less: Amounts currently available for operating funds	14,323	75,555
Amounts held by trustee	6,377	6,206
Amounts restricted for capital projects	1,790	-
Internally designated investments	$ 173,631	$ 78,814

The carrying values of cash and investments are included in the balance sheets as follows:

(in thousands of dollars)	2008	2007
Carrying value		
Cash	$ 3,913	$ 3,433
Investments	196,121	160,575
	$ 200,034	$ 164,008
Included in the following balance sheets captions		
Cash	$ 3,913	$ 3,433
Investments, current assets	14,323	75,555
Internally designated for capital acquisitions	173,631	78,814
Held by trustee for debt service	6,377	6,206
Held by third party for capital projects	1,790	-
	$ 200,034	$ 164,008

Investments internally designated for capital acquisitions are included in the following funds at June 30:

(in thousands of dollars)	2008	2007
Capital Improvement Fund		
Cash	$ 6,078	$ 1,118
Funds invested	159,067	69,096
	165,145	70,214
Depreciation Fund		
Cash	609	209
Funds invested	6,305	6,885
	6,914	7,094
Other - State Port Construction Fund		
Cash	377	377
Funds invested	1,195	1,129
	1,572	1,506
	$ 173,631	$ 78,814

In connection with outstanding revenue bonds, (1) the Ports Authority's net revenues (defined as the portion of revenues remaining after providing for the proper operation and maintenance of facilities) are pledged for payment of bond principal and interest, (2) a statutory lien on the Ports Authority's facilities exists and (3) the Ports Authority is required to maintain Revenue Bond Debt Service Funds; Revenue Bond Debt Service Reserve Funds; a Construction Fund and a Capital Improvement Fund (for improvement of Ports Authority facilities); and a Depreciation Fund (for operating equipment).

General provisions regarding these Funds are as follows:

The assets of the Revenue Bond Debt Service Funds and Revenue Bond Debt Service Reserve Funds are to be used for the redemption of bonds and payment of interest on the bonds. Additions to the Revenue Bond Debt Service Funds are required from operating funds in amounts equal to the annual principal and interest payments. Additions to the Reserve Funds are required from operating funds when the Reserve Fund's assets are less than the sum of the largest annual interest payment for each issue of revenue bonds outstanding. When the assets of the Reserve Fund exceed the requirements, the Ports Authority is permitted to use the Reserve Fund investment income for principal and interest payments and thereby reduce the amount of operating funds required to be transferred to the Debt Service Fund. Moneys in the Debt Service Reserve Funds can be invested and reinvested in investments collateralized by U.S. government or agency obligations, with maturities consistent with the need for moneys in the funds. The Reserve Fund Requirement applicable to the Series 1998 Bonds is funded through the purchase of a debt service reserve insurance policy.

The Construction Fund was established with the proceeds from the 1998 revenue bonds. This fund is used as needed to pay the costs of facilities improvements and equipment for which the bonds were established. Maturities of investments in the Construction Fund are limited to be consistent with the anticipated need for money from the Construction Fund.

Additions to the Capital Improvement Fund and Depreciation Fund are required in amounts equal to the annual budget for facilities improvements and equipment. Proceeds from the sale of real and personal property also are required to be deposited to these Funds. The Funds can be used for improvements, betterments and extensions of facilities, restoration of depreciated or obsolete property, operating equipment, unforeseen contingencies, and payment of principal or interest on outstanding bonds if the assets of the Debt Service or Debt Service Reserve Funds are not sufficient to make such payments.

The assets of the State Port Construction Fund are unexpended contributions to the Fund and net harbormaster fees required to be transferred to the Fund. The assets are internally restricted for improvements and expansion of the Ports Authority's facilities.

3. Property and Equipment

Property and equipment consist of the following amounts:

(in thousands of dollars)	Balance at June 30, 2007	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2008
Land	$ 164,627	$ 23,550	$ -	$ -	$ 188,177
Land improvements	163,610	-	-	13,549	177,159
Land held for sale	2,728	-	-	-	2,728
Buildings and structures	270,631	-	(9,027)	56,920	318,524
Railroad tracks	5,328	-	-	-	5,328
Terminal equipment	118,817	157	(913)	3,469	121,530
Furniture and fixtures	20,108	-	-	1,999	22,107
Capital projects in progress	89,780	43,472	(3,023)	(75,937)	54,292
	835,629	67,179	(12,963)	-	889,845
Less: Accumulated depreciation	334,627	28,538	(9,809)	-	353,356
Property and equipment, net	$ 501,002	$ 38,641	$ (3,154)	$ -	$ 536,489

(in thousands of dollars)	Balance at June 30, 2006	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2007
Land	$ 166,731	$ 274	$ (666)	$ (1,712)	$ 164,627
Land improvements	156,992	-	-	6,618	163,610
Land held for sale	-	-	-	2,728	2,728
Buildings and structures	269,764	-	(617)	1,484	270,631
Railroad tracks	4,601	-	-	727	5,328
Terminal equipment	85,361	12	(2,405)	35,849	118,817
Furniture and fixtures	18,431	-	-	1,677	20,108
Capital projects in progress	58,949	78,202	-	(47,371)	89,780
	760,829	78,488	(3,688)	-	835,629
Less: Accumulated depreciation	312,380	25,233	(2,986)	-	334,627
Property and equipment, net	$ 448,449	$ 53,255	$ (702)	$ -	$ 501,002

Leases

During the years ended June 30, 2008 and 2007, the Ports Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately $1,106,000 and $1,065,000, respectively.

Land Grant

On July 17, 2007, the Ports Authority received a grant of 318 acres of land from the Charleston Naval Complex Redevelopment Authority (RDA). The RDA is a jointly governed organization between the State of South Carolina and several counties within South Carolina. The RDA is not considered a component unit of the State of South Carolina and the State has no ongoing financial interest in the RDA. Therefore, the grant of land received by the Port Authority is not considered an intra-entity transaction and the value assigned to the land is fair market value. Based on third party independent appraisals obtained by the Ports Authority, the fair market value of the land on the date of grant is approximately $23,550,000. The land will be used for the construction of a new shipping terminal and is properly reflected as a capital contribution at June 30, 2008.

4. Intangible Assets and Goodwill

On August 30, 1999, the Ports Authority entered into a license agreement with Charleston International Ports, LLC ("CIP") related to the joint operation of an ocean terminal located in Charleston, SC. The license agreement allowed for license fees to be paid to the Ports Authority equal to 50% of the net income generated by CIP. The Ports Authority leased the terminal and associated land from an unrelated party and subsequently subleased the property and the use of the terminal to CIP.

On January 7, 2004, CIP and the Ports Authority reached an agreement to terminate the relationship and the license agreement. As a result of this termination agreement, the Ports Authority agreed to acquire all rights and benefits under the license agreement. The purchase price for the business and the assumed liabilities has been allocated to certain tangible assets as well as intangible assets totaling approximately $692,000 and goodwill of $3,230,000.

On June 1, 2005, the lessor of the CIP terminal and associated land amended the lease agreement, canceling the Ports Authority's obligation to pay rent from the inception of the lease and forward. The Ports Authority had a liability of approximately $1,040,000 payable to the lessor for rental payments due under the lease agreement. As of June 30, 2005, the liability has been cancelled and the goodwill associated with the purchase of CIP has been reduced by $1,040,000.

The intangible assets and goodwill consist of the following at June 30:

(in thousands of dollars)	2008	2007
Intangible assets subject to amortization		
Customer contracts, amortized over two years	$ 47	$ 47
Customer relationships, amortized over eighteen years	645	645
Other	184	184
	876	876
Less: Accumulated amortization	(434)	(395)
Intangible assets subject to amortization, net	442	481
Goodwill, not subject to amortization	2,190	2,190
	$ 2,632	$ 2,671

The intangible assets are amortized using a method based on the estimated useful lives of the assets. Amortization expense for the next five years and thereafter is as follows:

(in thousands of dollars)	
2009	$ 38
2010	35
2011	35
2012	35
2013	35
Thereafter	264
	$ 442

5. Long-Term Debt

Borrowings and payments on long-term debt are as follows:

(in thousands of dollars)	June 30, 2007	Additions	Reductions	June 30, 2008	Current Portion
Revenue bonds – 1998B	$ 25,000	$ -	$ -	$ 25,000	$ -
Revenue bonds – 1998	108,505	-	(3,330)	105,175	3,515
Notes payable	2,487	-	(488)	1,999	360
	135,992	-	(3,818)	132,174	3,875
Plus: Unamortized premium	693	-	(45)	648	-
	$ 136,685	$ -	$ (3,863)	$ 132,822	$ 3,875

(in thousands of dollars)	June 30, 2006	Additions	Reductions	June 30, 2007	Current Portion
Revenue bonds – 1998B	$ 25,000	$ -	$ -	$ 25,000	$ -
Revenue bonds – 1998	111,660	-	(3,155)	108,505	3,330
Notes payable	2,972	-	(485)	2,487	488
	139,632	-	(3,640)	135,992	3,818
Plus: Unamortized premium	739	-	(46)	693	-
	$140,371	$ -	$ (3,686)	$136,685	$ 3,818

Series 1998

During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately $1,105,000, consist of serial bonds totaling $70,865,000 maturing July 1, 2018 and term bonds of $54,135,000 maturing on July 1, 2026. The bond premium is amortized using the effective interest method over 28 years, the life of the bonds. Unamortized bond issue costs at June 30, 2008 and 2007 were approximately $1,105,000 and $1,167,000, respectively. Interest is payable each January 1 and July 1 at rates ranging from 3.8% to 5.5%.

The Series 1998 Bonds maturing on July 1, 2013 and thereafter are subject to optional redemption prior to maturity at the option of the Ports Authority, on or after July 1, 2008. The redemption prices as a percentage of principal amounts are as follows (plus interest accrued to date):

Redemption Date (Inclusive)	Redemption Price
July 1, 2009 to June 30, 2010	100.5%
July 1, 2010 to June 30, 2011	100.0%
July 1, 2011 and thereafter	100.0%

The Series 1998 Bonds maturing on July 1, 2026 are subject to mandatory sinking fund redemption by lot on July 1 in each of the following years and will be redeemed at 100% of the principal amount plus accrued interest at the redemption date:

(in thousands of dollars)

Redemption Period	Redemption Price
2020	$ 6,210
2021	6,540
2022	6,890
2023	7,255
2024	7,640
2025	8,040
2026	8,470
2027	3,090

Series 1998B

During fiscal year 1999, the Ports Authority issued Series 1998B bonds to refund the Ports Authority's outstanding $24,800,000 1994 Junior Lien Revenue Bonds. The bonds, issued at cost, consist of term bonds of $25,000,000 maturing on July 1, 2028. Interest is payable each January 1 and July 1 at variable rates, with a maximum rate of 18%. The interest rate at June 30, 2008 and 2007 was 1.72% and 3.78%, respectively. The 1998B bonds are generally redeemable prior to maturity on interest payment dates with a 30 or 60-day notice from the Ports Authority, depending on which interest rate applies at the time. Some interest rates require a no-call period during which the bonds are not redeemable. Unamortized bond issue costs at June 30, 2008 and 2007 were approximately $273,000 and $286,000, respectively.

The 1998B bonds are collateralized by an irrevocable letter of credit that had a value of $27,219,000 at June 30, 2008 and 2007. This letter of credit equals the aggregate principal amount of the bonds outstanding plus 270 days of interest computed at a rate of 12% per annum. The letter of credit has a termination clause based on a 13 month notification period.

The 1998B bonds may also be subject to redemption at the option of the Ports Authority without premium at any time as a whole at the principal amount thereof if the project, or any substantial portion thereof, is damaged or destroyed, or if any public authority condemns or exercises the power of eminent domain over the project.

Credit Agreement

During fiscal year 2001, the Ports Authority obtained a $10,000,000 revolving line of credit from a bank. Under the credit agreement, the Ports Authority and the lender will agree on the maturity date, the interest rate and the interest payment dates for each borrowing at the time of such borrowing. The interest rate on the borrowings is not to exceed the prime rate at the time of borrowing. Use of the borrowings is unrestricted. There are no borrowings under the line of credit at June 30, 2008 and 2007.

Maturities of long-term debt are summarized as follows:

	Revenue Bonds		Other Long-Term Debt	
(in thousands of dollars)	**Principal**	**Interest**	**Principal**	**Interest**
2009	$ 3,515	$ 6,018	$ 360	$ 45
2010	3,705	5,814	345	36
2011	3,910	5,599	345	27
2012	4,125	5,372	345	19
2013	4,350	5,133	345	10
2014 – 2018	25,520	21,777	259	2
2019 – 2023	32,810	14,085	-	-
2024 – 2027	52,240	3,841	-	-
	$ 130,175	$ 67,639	$ 1,999	$ 139

Various debt obligations, including the 1998B revenue bonds, have variable interest rates. Related future interest costs have been estimated based on the interest rates in effect at June 30, 2008.

Interest cost incurred in fiscal year 2008 and 2007 was approximately $5,768,000 and $6,789,000, respectively. Interest of approximately $1,018,000 and $1,611,000 was capitalized in fiscal year 2008 and 2007, respectively, in connection with the construction of various Port facilities. In addition, an unrealized loss of approximately $6,036,000 related to the interest rate swap agreements is included in interest cost at June 30, 2008.

6. Commitments

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately $32,156,000 and $10,274,000 at June 30, 2008 and 2007, respectively.

Harbor Deepening

The Federal Water Resources Development Act of 1986 authorized the deepening of the Charleston Harbor to a depth of 40 feet and the project was completed in 1994. The Federal government and the State of South Carolina provided all of the funding for this $125 million project.

An Army Corps of Engineers study of the Charleston harbor completed in 1996 concluded that a further deepening of Charleston Harbor would lower transportation costs. Based on the 1996 study, Congress approved a channel depth of 45 feet.

The Ports Authority and the Army Corp of Engineers (Federal entity) entered into a cooperation agreement to further deepen the Charleston Harbor to its present depth of 45 feet. The agreement was entered into on June 5, 1998.

The Army Corps of Engineers has estimated the total cost of this deepening project to be approximately $134.9 million over a six-year period. Funding sources include Federal appropriations totaling approximately $85.1 million and a local share of approximately $49.8 million. Of this local share, the Authority had drawn $34.9 million from the State of South Carolina through June 30, 2008. To meet the balance of the local share of the project, the Authority has requested the remaining $14.9 million from the State of South Carolina. However, the remaining portion of the local share is the legal obligation of the Authority. The State has not committed funding for the total remaining local share balance, nor is there any assurance as to any such commitment. Since 1957, the State has financially supported certain projects including terminal expansion and has provided the local share for previous harbor deepening projects.

As of June 30, 2008 and 2007, the Ports Authority has recorded a liability of $14,955,000 and $14,454,000, respectively, equal to the remaining portion of the local share of which $1,466,000 of this balance was included in construction accounts payable at June 30, 2007. In addition, the Ports Authority has recorded deferred harbor deepening costs of $14,763,000 and $14,261,000 as of June 30, 2008 and 2007, respectively.

To facilitate payments to the Federal government for the State's share of the Harbor Deepening Project and the Daniel Island Fill Material Project, the Ports Authority established two letter of credit arrangements with a regional bank. The contracting federal agency is authorized to draw against the letters of credit as construction progresses. During fiscal years 2008 and 2007, the total credit issued under the letters of credit was approximately $32.9 million for both years. A total of $32.5 has been drawn by the contracting federal agency leaving $382,000 at the end of June 30, 2008 and 2007. As of June 30 2008, there is an outstanding draw of approximately $193,000 against the letter of credit.

On July 30, 2008, the Ports Authority obtained funds appropriated by the State of South Carolina for funding of the local share of the Harbor Deepening project in the amount of approximately $7,035,000. These funds were paid to the Army Corp of Engineers as partial settlement of the final Harbor Deepening obligation. The final settlement of $7,920,000 is estimated to be paid by the Ports Authority in November 2008.

On August 22, 2008, the Ports Authority received official word from the State of South Carolina that no further appropriations from the State budget would be allocated for funding of the Harbor Deepening project. Therefore, the remaining obligation of approximately $7,920,000 would be the financial responsibility of the Ports Authority. This portion of the Harbor Deepening project represents the Ports Authority's cost associated with the creation of land. Therefore, beginning in fiscal year 2009, the $7,920,000 will be reclassified to property, plant and equipment.

BMW Land
In 1994, the Ports Authority purchased certain land in Greer, South Carolina, for a cost of approximately $37 million. The purchase was funded by $5 million from the Ports Authority and the balance from the State of South Carolina and related entities. The land purchase was the result of a State effort that resulted in Bavarian Motor Works ("BMW") locating an automobile manufacturing facility in South Carolina. The Ports Authority entered into a lease of the aforementioned land and land improvements with BMW under a lease agreement that covers a 30-year period. BMW leases the land for $1 per year with an option to acquire the property at the end of the lease term for a price equal to the Ports Authority's original cost. BMW was required to build an automobile production facility on the property. If BMW should discontinue operations of the facility, BMW is required to purchase the site from the Ports Authority at original cost. BMW can also elect to purchase all or part of the land at any time during the lease term at original cost.

From 1994 through June 30, 2008, the Ports Authority has been granted approximately $17.5 million in land for use by BMW and the Department of Transportation, which carries the same provisions as the land under lease mentioned above.

The Ports Authority and BMW have entered into a Service Agreement establishing a unit fee per each vehicle handled and stored by the Ports Authority. The term of the Service Agreement ends September 30, 2014.

Interest Rate Exchange Agreements
On December 6, 2005, the Ports Authority entered into two interest rate swap contracts intended to manage interest expense on fixed rate debt. At June 30, 2007, the Ports Authority had two interest rate swap contracts outstanding with notional amounts of $26,332,500 and $61,442,500 for a total of $87,775,000. Under the contracts, the Ports Authority will exchange monthly payments with counterparties, based upon the notional amounts. The payments from the Ports Authority to the counterparties are based on a fixed rate of 3.6671%, and the payments from the counterparties to the Ports Authority are based upon 70% of the 1-month LIBOR rate. The payments began August 1, 2008 and continue the first day of each succeeding month, up to and including July 1, 2026, when the contracts expire.

On June 5, 2008, the Ports Authority entered into a third interest rate swap contract intended to manage interest expense and offset the effects of the interest rate swaps entered into in 2005 as noted above. The notional amount under the new swap agreement is $87,775,000 at June 30, 2008. Under the contract, the Ports Authority will exchange monthly payments with counterparties based upon the notional amounts. The payments from the Ports Authority to the counterparties will be based on a variable rate equal to the SIFMA Municipal Swap Index rate beginning on August 1, 2008 and the first day of each succeeding month up to and including July 1, 2026, when the contract expires. The payments from the counterparties to the Ports Authority will be based on a fixed rate of 3.508%.

The fair value of the Ports Authority's interest rate swap agreements are estimated amount that the Ports Authority would receive (pay) to terminate the agreements, taking into account interest rates. At June 30, 2008, the Ports Authority estimates that the interest rate swap agreements have a market value of approximately $(3,915,000). At June 30, 2007 the Ports Authority estimates that the interest rate swap agreements have a market value of approximately $2,121,000. The fair value of the interest rate swap agreements are reflected as interest income (expense) in the statement of revenues, expenses and changes in net assets. The unrealized loss related to these agreements recorded at June 30, 2008 is $6,036,000 and is included in the interest expense on the state of revenues, expenses and changes in net assets. The Ports Authority anticipates holding the interest rate swap agreements through maturity.

7. Retirement Plans

Employees of the Ports Authority participate in the South Carolina Retirement System's employees retirement plan ("SCRS"), a defined benefit, cost-sharing, multiple-employer, public employee retirement system. Substantially all full-time permanent Ports Authority employees are required to participate in SCRS. The wages covered by SCRS for the years ended June 30, 2008 and 2007 were approximately $33,230,000 and $33,126,000, respectively. The wages not covered by SCRS for the years ended June 30, 2008 and 2007 were approximately $1,342,000 and $2,102,000, respectively.

Under SCRS, employees who retire at or after age 65 or have 28 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's average salary over the twelve highest consecutive quarters. Benefits are fully vested after five years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. SCRS also provides death and disability benefits. Benefits are established by state statute.

The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for SCRS. The report may be obtained by writing to: The South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960, or at www.retirement.sc.gov.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws (as amended) prescribes requirements relating to membership, benefits, and employee/employer contributions for the plan. By law, employee contribution requirements at July 1, 2007 (the latest available) were 6.50% of the employee's salary. Actuarially determined employer contribution rates for SCRS, expressed as a percentage of compensation, at July 1, 2007 (the latest available) were 9.06%. The total contribution for the years ended June 30, 2008 and 2007 was approximately $3,100,000 and $2,741,000 from the Ports Authority and approximately $2,103,000 and $2,073,000 from employees, respectively.

The "accrued liability" is a standardized disclosure measure of the actuarial present value of the projected benefits of each individual allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The measure is intended to help users assess SCRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. SCRS does not make separate measurements of assets and benefits payable for individual employers. The unfunded accrued liability at July 1, 2007, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $10.225 billion. The ten-year historical trend information showing SCRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2007 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

8. Other Post-Employment Benefits ("OPEB")

The Ports Authority provides postemployment health care benefits including group healthcare, dental and vision to all employees who officially retire from the Ports Authority. These benefits are offered through private insurance carriers and the Ports Authority pays a share of the costs for the retiree's health and dental plans, but does not contribute toward the cost of the vision plan.

To be eligible for retiree group health and/or dental insurance coverage, employees must retire (based on the rules of the South Carolina Retirement System) meeting one or more of the rules below:

- Due to years of service with the Ports Authority
- Due to age (minimum service requirements must also be met)
- On approved disability through the South Carolina Retirement System (minimum service requirements must also be met)

To be eligible for Ports Authority Funded Insurance (employer pays a share of premium):

- Employee must retire, leave active employment with the Ports Authority, and have ten or more years of earned retirement service credit with the Ports Authority

To be eligible for Non-Funded Insurance (retiree pays full premium):

- Employee must retire, leave active employment with the Ports Authority, and have at least five but less than ten years of earned service credit with the Ports Authority

Retirees may cover eligible spouse and dependents under the plan in which the retiree is enrolled.

Prior to July 1, 2007, the Ports Authority had the option to account for postretirement benefits other than pensions using the "pay-as-you-go" or "advance funding on an actuarial determined basis" method. In accordance with GASB 12, the Ports Authority elected to follow the "pay-as-you-go" method and expensed costs incurred for the year ended June 30, 2007.

Effective July 1, 2007, the Ports Authority adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement requires governmental entities to recognize and match post-employment benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to the third party administrator. The Ports Authority paid the employer's portion of premiums directly to the insurance carriers in the amount of approximately $695,000 and $618,000 for fiscal years 2008 and 2007, respectively.

The OPEB Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program, dental and vision care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, Ports Authority coverage is secondary. Recommendations for modifications are brought to the Human Resources Executive Committee. Any amendments to the obligations of the plan members or the Authority's obligations to contribute to the plans are brought forth by the Human Resources Executive Committee and approved by the President and CEO.

Employees included in the actuarial valuation include retirees, survivors, and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately $1,282,000 and $1,121,000 for fiscal years ended June 30, 2008 and 2007, respectively. For fiscal years 2008 and 2007, the Ports Authority paid approximately 54.2% and 55.2% and the retirees were responsible for funding approximately 45.8% and 44.8%, respectively.

As part of the transition provisions of GASB Statement No. 45, the Ports Authority accrued an additional $1,360,000 in retiree healthcare expense during fiscal year 2008.

The OPEB plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact: South Carolina State Ports Authority, Human Resources Department, 176 Concord Street, Charleston, SC 29401.

The table below illustrates the determination of the annual required contribution (ARC) and the end of year obligation as of June 30, 2008:

(in thousands of dollars)

Net OPEB obligation, beginning of year	$ -
Annual required contribution (ARC)	2,546
Interest on net OPEB obligation	57
Annual OPEB cost	2,603
Employer contributions	(1,216)
Interest on employer contributions	(27)
Net OPEB obligation, end of year	$ 1,360

Actual contributions paid in fiscal year 2008 include $1,282,000 plus expected subsidy payments of $521,000 less participant contributions of $587,000. Employer contributed 63.9% of annual OPEB cost during fiscal year 2008:

Schedule of Employer Contributions

(in thousands of dollars)

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2008	$ 2,546	$ 1,216	47.8%

The annual required contribution (ARC) of $2.56 million for fiscal year 2008 is based on the assumption no funding in a segregated GASB qualified trust.

Schedule of Funding Progress
The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

(in thousands of dollars)

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]
June 30, 2008	$ -	$ 31,552	$ 31,552	0%	$ 26,061	121%

Estimated payroll as of July 1, 2007 includes only plan participants.

Schedule of Percentage of OPEB Cost Contributed

(in thousands of dollars) Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$ 2,603	47.8%	$ 1,360

Summary of Key Actuarial Methods and Assumptions

Valuation year	July 1, 2005 – June 30, 2006
Actuarial cost method	Projected Unit Credit
Amortization method	30 years, level percent of active member payroll
Asset valuation method	N/A
Actuarial assumptions	
Discount rate	4.5%
Projected payroll growth rate	3.0%
Heath care cost trend rate for medical and prescription drugs	9.0%

(9% in 2008 and 9.5% in 2007, decreasing by one-half percentage point per year to an ultimate rate of 4.5% in fiscal year 2017 and after).

9. Facilitating Agreements

The Ports Authority has entered into agreements to provide future port services with tenants whereby it assigns certain land areas and certain of its facilities for their use for terms ranging from one month to eighteen years. These agreements are accounted for as operating leases; revenue for port services provided and for facilities used is recorded as operating revenue when earned.

In fiscal year 2008 and 2007, operating revenue recorded for facilitating agreements by the Ports Authority was approximately $110,433,000 and $101,338,000, respectively.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30 were:

(in thousands of dollars)	2008	2007
Cost	$ 542,289	$ 479,280
Accumulated depreciation	228,056	214,423

Minimum future operating revenue and rentals, excluding contracts that do not have minimum volume guarantees, to be received under noncancelable agreements as of June 30, 2008 were:

(in thousands of dollars)

2009	$ 52,516
2010	41,957
2011	22,581
2012	7,114
2013	683
Thereafter	3,746
	$ 128,597

10. Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, investments, accounts and retainage payable, credit agreement and other debt approximate fair value. The fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Ports Authority for similar borrowing arrangements and the market rate of comparable traded debt. The fair market value at June 30, 2008 and 2007 was approximately $125,637,000 and $132,446,000, respectively.

11. Other Matters

Cooper River Bridge

In 1998, the Ports Authority consulted with its external bond counsel concerning a request that the Ports Authority contribute to the cost of a new bridge over the Cooper River at the Port of Charleston. By its opinion dated June 3, 1998, its external counsel noted that no argument had been advanced that the bridge would be a "Port Facility" within the meaning of the Ports Authority Master Bond Resolution, and stated: "Under the circumstances, in our opinion, it is highly doubtful that the Ports Authority has the legal right to divert a portion of its Revenues to a project outside of any port facility, such as the Cooper River Bridge." On April 13, 2001, the legal counsel for the revenue bond underwriter advised the Ports Authority to a similar effect.

On March 13, 2002, the Ports Authority Board resolved to make a contribution to the bridge on the condition that a study be conducted demonstrating that the bridge would constitute a "Port Facility." At its meeting held on June 18, 2002, the Ports Authority Board received studies conducted by Norbridge, Inc., Moffatt & Nichol, and HNTB that led the Board to conclude that the future benefit to the Ports Authority that would be derived from the bridge height and width increase would constitute a Port Facility and resolved to make the contribution described below.

The Ports Authority Board contributed $5 million in fiscal year 2002, $8 million during fiscal year 2003 and $7 million during fiscal year 2004 toward the construction of the new Cooper River Bridge. Additionally, the Ports Authority will pay $1,000,000 per year beginning in fiscal year 2004 for 25 years for a total of $45 million. These payments have been treated as nonoperating expenses to the State of South Carolina and, therefore, have reduced the Ports Authority's net assets.

On June 24, 2005, the Ports Authority and the State of South Carolina finalized an agreement regarding the remaining contributions to the Cooper River Bridge. The agreement stated that each contribution is a separate non-exchange transaction and the Ports Authority has only the obligation to pay the $1,000,000 annual amount at any given time for the remaining 25 years. Payments to the State of South Carolina totaled $1,000,000 in each fiscal year 2008 and 2007.

Jasper County Land
In April 2006, the Ports Authority paid $9,317,000 to the courts of South Carolina to condemn certain property in Jasper County, SC for the future site of a new shipping terminal. The funds are held in escrow with the court at June 30, 2008 and 2007.

Subsequent to June 30, 2008, the Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-port facility to be operated jointly between the Ports Authority and the State of Georgia. As a result, the condemnation of the property was terminated and the $9,317,000 held in escrow was returned to the Port Authority. The legal and operational structure of the potential bi-port facility is not known at this time.

Federal Security Grant Agreements
From 2002 through 2008, the Ports Authority was awarded grants from the Department of Homeland Security, Office of State and Local Government Coordination and Preparedness and the Department of Transportation, Maritime Administration ("DOT") (as an agent of the Transportation Security Administration) for approximately $21.3 million to be used for port security. As of June 30, 2008 and 2007, the Ports Authority has expended approximately $639,000 and $448,000, respectively, related to these grant agreements.

Closure of Port Royal Terminal
Effective December 31, 2006, the Ports Authority discontinued operations and closed the Port Royal terminal located in Port Royal, SC. The State of South Carolina has mandated the closure of this terminal so that the land can be developed to generate future revenues for the State of South Carolina. The Ports Authority has lease contracts with several major tenants at the Port Royal facility. Certain lease termination costs will be incurred in order to terminate the leases and prepare the land for sale. The Ports Authority has estimated the costs to terminate the leases as of June 30, 2008 and 2007. Based on current estimates, the Ports Authority believes the termination costs can be fully recovered from the future sale of the land and has recorded the estimated termination charges as deferred costs. As of June 30, 2008, the Port Royal land is classified as held for sale.

12. Litigation

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2008, and management intends to vigorously defend the Ports Authority in such matters. While the ultimate results cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial position of the Ports Authority.

As noted in the footnote regarding the closure of the Port Royal terminal, the tenants have filed arbitration notices claiming breach of contract against the Ports Authority during 2008 and 2007. Each plaintiff seeks monetary damages. It is the intention of the Ports Authority to defend its position vigorously. During 2008, a settlement was reached with one tenant. Management is unable to determine the probability of an unfavorable or favorable outcome related to the remaining arbitration notices.

13. Subsequent Event

On October 3, 2008, the Ports Authority redeemed the Series 1998B variable rate bonds through a cash payment of $25,010,246.